



Public Knowledge, LLC

1911 SW Campus Drive
Federal Way, WA 98023-6473

September 6, 2005

The Honorable Christine Gregoire

Governor of the State of Washington
PO Box 40002
Olympia, WA 98504-0002

Dear Governor Gregoire:

Public Knowledge, LLC is pleased to submit this Organizational and Operational Review of the Washington State Liquor Control Board (WSLCB). This report would not have been possible without the full and enthusiastic support of the Board members, Administrative Director, Deputy Administrative Director and management of WSLCB.

The review recommends an optimal organizational structure created by the delegation of additional management responsibilities to the Administrative Director, the consolidation of the Purchasing, Distribution and Retail Sales Divisions into a single Retail Services Division, and the development of a plan to transition the Board from its current sixty percent salaried status to a voluntary Board meeting monthly. The review recommends several operational efficiencies, documents and validates the revenue projection methodology used by WSLCB and also identifies any potential public safety challenges related to these projected trends.

We found that WSLCB leadership is performing well and currently enjoys the strong support of stakeholders including the regulated industries. The creation of an Administrative Director and the increasing management capabilities of WSLCB should allow the Board to successfully fulfill its policy, legislative and judicial requirements as a voluntary body. However, we have found operational issues of concern: primarily the lack of critical infrastructure -- information technology, management information, training resources, replacement parts for key equipment -- that will hinder WSLCB's ability to meet key Agency goals, in particular, increasing revenue to the state. The situation likely results from the Agency's inability to reinvest sufficient revenues to meet infrastructure needs and represents the biggest challenge to WSLCB.

Addressing this challenge will require legislative action such as allowing WSLCB to operate in an enterprise business model. The longtime benefits to the state, we believe, overshadow the immediate savings that would result from converting the Board to a voluntary status. A well-planned transition to a voluntary Board should avoid the disruption and potential lack of focus that could hinder the Agency's ability to meet this challenge.

Thank you for this opportunity to be of service.

Sincerely,

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DEFENDANT'S EXHIBIT	
CASE NO.	C04-0360P
EXHIBIT NO.	587

Resp to Costco RFP
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TX587-001

Executive Summary:

Liquor Control Board Independent Review

The Washington State Liquor Control Board (WSLCB) received a request Feb. 10, 2005, from Gov. Christine Gregoire to conduct an independent review of the agency and research five areas of performance and organization related to its dual mission of revenue generation and public safety.

The Board hired a consultant, *Public Knowledge, LLC*, to conduct the independent review. *Public Knowledge*, a project specialist experienced working with business management and technology issues, skilled in bridging the gap between executive expectations and day-to-day operations. The firm also has substantial experience working with boards and governmental agencies.

This Executive Summary focuses on four of the five issues outlined in the Governor's request:

1. Our projected revenue growth for the next five to 10 years
2. The impact of increased sales on public safety
3. Operational and policy efficiencies
4. Optimum organizational structure including the board

The fifth issue, a request for an analysis of overall working relationships between employees and managers of the WSLCB organization, was addressed separately in an employee survey conducted by the Department of Personnel (DOP).

Revenue Growth Forecasting

Analysis

Public Knowledge analyzed past and current revenue trends. They found the agency's revenue projections of about 5 percent annual sales growth to have been accurate each of the last four years. Revenue is projected to increase by 5.45 percent in FY 06 and 5.3 percent in FY 07.

Public Knowledge indicated that further investment in information technology infrastructure was needed to keep pace with advancements in retail software applications. The agency should capitalize on this information and focus on identifying, collecting or using data that could enhance revenue generation or forecasts.

The Report's Recommendations

- The information technology system needs to support the agency's retail business. The system should be able to capture the necessary data either to calculate the cost of goods sold or share appropriate data with an accounting system that can calculate this figure down to the store level. This will allow the agency to develop more accurate revenue forecasts and manage retail operations more efficiently.
- In addition, the system should capture inventory and related revenue data in appropriate units for the liquor industry (i.e. bottles, cases, etc.).

Agency's Response

The agency has allocated additional resources to improve its revenue forecasting capability and its retail management capability. The agency installed a new Point-of-Sale system in June 2005 with expanded inventory reporting capability and is making additional improvements to allow it to capture additional data for management use. More than \$2.26 million in information technology infrastructure improvements are scheduled for this biennium. It is expected that with these improvements the system will be able to produce more accurate and timely information to enable more informed planning and decision making.

Public Safety Challenges Related to Revenue Growth

Analysis

Public Knowledge examined the relationship between increased liquor sales and consumption rates to determine if revenue growth would produce higher levels of consumption. They determined that recent annual sales increases have been due primarily to increases in the state's drinking-age population, not increased consumption rates.

"Based on the analysis of the current revenue forecasts and historical per capita consumption rates, there is no indication liquor consumption will increase significantly as liquor revenues rise over the short term," the report stated.

The report indicated that costs for treating alcoholism and related illnesses were increasing nationally and that minimal growth in WSLCB revenues would not be sufficient enough to offset the annual percentage increase in health care treatment costs for alcohol abuse related illnesses.

The Report's Recommendation

- If the revenue distribution percentage to drug and alcohol abuse treatment programs is not increased at essentially the same rate as the growth in health care costs, fewer individuals seeking services will be able to receive them each year.

Agency's Response

The agency is placing increased emphasis on creating a more effective statewide alcohol awareness effort and on working more collaboratively with the state's treatment and prevention communities. The 2005 Legislature provided start-up funding for the alcohol awareness program. The agency has developed a plan for this program and is in the process of recruiting for the alcohol awareness manager position. This will include seeking grants from federal, state and private agencies.

Operational & Policy Efficiencies

Analysis

Public Knowledge examined the agency's operational and policy structure to determine if recent changes in these areas had been successful and to identify additional changes that might increase productivity or efficiency. Stakeholders were asked their opinions about the agency's current operational structure.

In general, stakeholders are pleased with the improvements being made in the agency, which achieves high levels of performance compared to similar control states, the report stated. Stakeholders strongly believe the agency must continue its current emphasis on strategic and long-range business planning to achieve continued success. An analysis of the retail supply chain

revealed considerable performance problems and opportunities for improvements in key areas such as product inventory and in the organizational structure of the retail supply chain operation.

“Overcoming these challenges and realizing the performance opportunities will require gubernatorial and legislative support in the 2007 session, as well as consensus-building among stakeholders. We believe WSLCB has the requisite leadership expertise, the stakeholder and industry support, and the confidence of the Governor. Preparing for success in the 2007 legislative session will require effort and leadership from the entire Executive Management Team.” – *Public Knowledge Report*

The Report's Recommendations

- Future revenue production hinges on making additional investments in information technology, management information, training resources and physical plant maintenance.
- A Business Enterprise Model should be considered to provide timely business decisions. Continued emphasis on developing a more analytical business model is a critical component of this effort.
- A more unified supply chain management system should be created by combining the divisions of Purchasing, Distribution Center and Retail Services into a single division with a single director reporting to the Administrative Director.

Agency's Response

The agency has created a fully loaded cost model. The next step is to collect data and input it into the model to create a more comprehensive analysis of the agency's business activity. This will be completed this fiscal year in preparation for proposing a Business Enterprise Funding model to the 2007 Legislature.

The agency is considering the benefit of combining the Retail and Purchasing Divisions and the Distribution Center into a single division with a single director reporting to the Administrative Director. This decision is still under review.

Optimal Organizational Structure

Management Structure

Analysis

Public Knowledge examined current management responsibilities exercised by the Board and the Administrative Director to determine if additional responsibilities should be turned over to the director or retained by the Board.

In 2000 the Board began a transition from operational control to policy development and the position of Administrative Director was created to manage the agency's day-to-day operations. In 2001, the Board approved WAC 314-42-010 delegating specific operating duties to the Administrative Director. This action also reduced Board work time and pay to 60 percent.

The Board has continued to delegate additional administrative responsibilities to the Administrative Director: management oversight of the policy, legislative and media relations division and responsibility for division budgets.

This transition has helped the Board and Administrative Director and the agency focus on a critical set of infrastructure, policy and administrative challenges that must be addressed to

promote continued revenue growth and operational efficiency. The ability to focus on these issues has resulted in increasing levels of stakeholder approval and support.

The Report's Recommendation

- Delegate additional management responsibilities to the Administrative Director, including approval of product listing and de-listing approval and administrative management of the liquor stores and update WAC 314-42-010 to reflect these changes.

Agency's Response

These items are under review and will be acted on when the report recommendations are finalized.

Board Structure

The Governor requested the review should consider the benefits of further evolving the function and structure of the Board away from operational issues and toward greater focus on policy. *Public Knowledge* analyzed six similar state agencies with regulatory responsibilities and advisory boards. The comparison found that only the Liquor Control Board has salaried board members who are state employees.

Public Knowledge also compared the Board's organization and span of control to boards in other control states, which differ widely in their approach to governance. Six of those jurisdictions have voluntary advisory boards. Seven have boards that receive compensation and work either full or part time. Seven of the 13 control states, including Washington, have paid board members.

The appointment of an Administrative Director, the development of a sound agency management team, the improvement in policy issue analysis, and the creation of alternative forums for stakeholder participation will allow the Board eventually to execute its responsibilities through a voluntary structure, the report indicated.

WSLCB enjoys strong support from its stakeholders and a precipitous move to a voluntary board could undermine that support and distract agency leadership from its more important tasks, the report stated.

The Report's Recommendations

- The organization has set in motion a process that should continue – the move from a board whose members directly managed agency operations to a board focused on policy.
- A transition plan developed by the Executive Management Team, which includes the Board is called for to assure that the initial successes of the current organization can be maintained as the move to a voluntary board is accomplished.
- The current Board structure should continue through the 2007 legislative session. That is not solely because the transition to a voluntary board will require statutory changes. The 2007 legislative session will address WSLCB budget needs and we believe that both legislative changes and budget enhancements are essential.

Agency's Response

After reviewing the *Public Knowledge* report, the Board adopted a resolution stating it did not concur with the report's recommendation to transition to a voluntary board. Two Board members

believe there is not a clear and compelling reason to carry out such a transition. The Board Chairman supports the report's recommendation to make such a transition. These recommendations and responses are under review by the Governor.

Final Report

Project: **Washington State Liquor Control Board
Organizational and Operational Review**



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Executive Summary

Introduction

Governor Gregoire asked for an independent review and recommendations. The WSLCB engaged Public Knowledge to fulfill this request.

Governor Gregoire asked for an independent review and recommendations for the Washington State Liquor Control Board (WSLCB) in the following areas:

- Conduct a review of the Board and the WSLCB management structure and organization;
- Prepare organizational alternatives including a recommended optimal organizational structure;
- Evaluate the WSLCB for performance and operational efficiencies; and
- Research and validate projections on revenue growth for the next five to ten years and in light of those projections to identify potential public safety challenges related to these projected trends.

The WSLCB engaged Public Knowledge, LLC in an assessment of its organization to fulfill Governor Gregoire's request. The audience for the final report is the WSLCB members, Agency management and the Governor's office.

Approach

Public Knowledge conducted interviews...researched other control states and regulatory agencies...developed a set of criteria...findings were developed...and reviewed with the Executive Management Team.

In order to have the appropriate context for making recommendations, Public Knowledge conducted interviews with external stakeholders, WSLCB members, and Agency management. We also researched other Washington regulatory agencies, liquor control states, relevant statutes, and internal management documents.

Using several principles and legislative intent that has historically guided the work of the Agency, Public Knowledge developed a set of criteria for reviewing the current organizational structure and performance of the WSLCB. Findings for each criterion were developed based on the understanding gained from our research. The findings resulted in draft recommendations which were presented to the Executive Management Team (EMT). EMT suggested changes, requested further analyses, and completed a brief survey. This report incorporates the added analyses and our consideration of EMT's feedback.

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Review of Management Structure & Organization

After hiring an Administrative Director... the Board adopted a resolution to move to 60% working hours in December 2001.

The state of Washington, designated a "liquor control state", regulates the manufacture, wholesale and retail distribution of liquor, wine, and beer. The WSLCB, established in 1933, has a dual mission of generating revenue and protecting public safety.

After hiring an Administrative Director to oversee operations, the three-member Board adopted a resolution to move to 60% working hours in December 2001. Board members changed their focus to policy, rules and adjudicative responsibilities. A review of the meetings and responsibilities of the Board indicates that the Board continues to be involved in operational activities and decisions.

The Administrative Director responsibilities include supervision of staff, responsibility for the Board approved budget, contracts, purchase of goods and services and other routine duties delegated by the Board.

We researched... six Washington agencies including the Lottery Commission, Gambling Commission, and Horse Racing Commission... only the WSLCB has salaried Board members who are state employees.

We researched the organizational structure of six similar Washington agencies including the Lottery Commission, Gambling Commission and Horse Racing Commission. All agencies have regulatory responsibilities, full-time directors and voluntary boards/commissions. Only the WSLCB has salaried Board members who are state employees.

Evaluation criteria were developed and corresponding findings documented on the current management structure and organization of the WSLCB.

...stakeholders are pleased with the performance and progress of the WSLCB

In general, stakeholders are pleased with the performance and progress of the WSLCB. There is, however, concern that the Agency lacks a consistent, shared vision that provides for future direction.

Alternatives for the Organizational Structure and Recommendations

...we are recommending the continuation of the current Board structure... the Board should prepare to transition to a voluntary Board...

A transition plan is called for to ensure continued success of the organization.

Five organizational alternatives were considered, the chief selection criteria being an organizational structure that would enable the future success of the WSLCB. With this in mind, we are recommending the continuation of the current Board structure and further delegation of operational duties to the Administrative Director. The WSLCB should transition to a voluntary Board structure at the conclusion of the 2007 legislative session.

We recognize the WSLCB is facing considerable operational challenges. Overcoming these challenges and realizing performance improvements will require gubernatorial, legislative and stakeholder support in the 2007 legislative session. A transition plan is called for to ensure the continued success of the organization. WSLCB enjoys strong support of its stakeholders and a precipitous move to a voluntary board could undermine support and distract Agency leadership from more important tasks.

Washington State Liquor Control Board

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Public Knowledge, LLC

Currently, the Board is constituted with no formal requirements for Board qualifications. Our review considered possible changes including requiring industry experience, geographical location requirements, etc. However, we are recommending no changes as the absence of statutory requirements provides the most flexibility in selecting the best members.

Evaluation of the WSLCB for Performance and Operational Efficiencies

The WSLCB's primary operational responsibility is to manage the sale and distribution of alcoholic beverages and provide for public safety in the prevention of the misuse of alcohol.

We conducted an evaluation of the WSLCB operations to determine potential performance improvements and efficiencies. Evaluation criteria were developed and corresponding findings documented.

A comparison... with other similar control states reveals a high performing Agency... management must develop a viable plan that will lead them into the future...

In general, stakeholders are pleased with the improvements being made in the Agency. A comparison of WSLCB with other similar control states reveals a high performing Agency. However, there is a strong message from stakeholders that management must continue to develop and implement the Agencies Strategic and Retail Business plan or their success will likely not continue.

Our review found considerable performance problems in the operational environment...

Although improving operational policies and procedures recently have been a priority of the agency, our review found considerable performance problems in the operational environment including incomplete operational policies and procedures, basic technology infrastructure, little or no useable management data and severe problems in the liquor supply chain.

Our recommendations include researching... WSLCB becoming an "Enterprise Agency"... it is critical that... a viable operations business model be developed...

The WSLCB manages a retail business in a governmental environment which makes increasing profit and improving operational efficiencies much more difficult than their equivalent in the private sector.

Our recommendations include researching the opportunities and risks involved with the WSLCB becoming an "Enterprise Agency" and reducing some of the governmental constraints that are restricting their performance. However, it is critical that a part of this plan be a viable operations business model that will provide for business and technology infrastructure that will be the foundation for their success.

Validation of Revenue Growth Projections and Public Safety Impacts

...revenue forecasts are within 5% of actual figures...revenue forecasts project an increase of more than 5% for the next biennium...

...increased risk of incorrect revenue projections as the past will no longer be a reflection of the future.

While there may not be an increase in liquor consumption in Washington, more money will need to be distributed to drug and alcohol abuse treatment programs to treat the same number of individuals.

Validation of revenue projections revealed that when comparing *actual* revenues to *forecasted* revenues over the past four fiscal years most revenue forecasts are within 5% of actual figures. Actual revenues have exceeded forecasted revenues in each of the past four years on approximately 2%. Revenue forecasts for the 2006-2007 biennium project a 5.45% growth in 2006 and a 5.3% growth in 2007.

Revenue forecasts have relied heavily on historical data as a basis for determining projections. The WSLCB does not produce long-term revenue forecasts as future revenue has remained fairly predictable. Changes in staffing and infrastructure will provide increased risk of incorrect revenue projections as the past will no longer be a reflection of the future. Improvements need to be made to the quantity, quality and reliability of the data used to manage the retail stores.

Based on the analysis of the current revenue forecasts and historical per capita consumption rates, there is no indication there will be a significant increase in liquor consumption. National studies on health care indicate there is a significant growth in alcohol-related illnesses. If the revenue distribution percentage to drug and alcohol abuse treatment programs is not increased at essentially the same rate as the growth in healthcare costs, fewer individuals seeking services will be able to receive them each year.

Appendices

We have provided a complete list of our sources and research...

We have provided a complete list of our sources and research in the following:

- Appendix A provides a comparison of liquor control states, including five separate comparisons:
 1. Liquor Control Board Structure,
 2. Agency/Division Organizational Structure;
 3. Agency/Division Functional Structure;
 4. Number of Licensing Outlets; and
 5. Performance Comparison Data;
- Appendix B provides the details of the Agencies structure and a current organizational chart;
- Appendix C provides the RCW's and WAC's relevant to the WSLCB organization and management structure;
- Appendix D is a list of retail best practices from control states;
- Appendix E is a list of stakeholder interviews; and their respective organization or position in WSLCB; and
- Appendix F is a list of sources used to conduct research for this project.

Section 1 – Introduction

A. Purpose of the Study

Governor Christine Gregoire, in her reappointment letter to the Washington State Liquor Control Board (WSLCB) Chairman, recognized the progress that the WSLCB had achieved in refocusing their role to be a policy group, in implementing clarity of direction, and in achieving better resource utilization. Additionally, she asked for an independent review and report on the following key areas:

- Conduct a review of the Board and the WSLCB management structure and organization;
- Prepare organizational alternatives including a recommended optimal organizational structure;
- Evaluate the WSLCB for performance and operational efficiencies; and
- Research and validate projections on revenue growth for the next five to ten years and in light of those projections to identify potential public safety challenges related to these projected trends.

The WSLCB engaged Public Knowledge, LLC in an assessment of its organization to fulfill Governor Gregoire's request.

B. Audience

This document provides findings and recommendations with regards to the key areas listed above to the WSLCB Members, WSLCB Agency Management, and the Governor's Office.

C. Document Organization

This document is organized into seven sections. Those sections are:

Section	Contents
1. Introduction	Defines purpose of the study, audience for the report, the organization of the document, and the project background.
2. Approach	Defines approach taken to perform organizational assessment, including information gathering, developing criteria and conducting interviews, determining findings, and identifying recommendations.
3. Review of Management Structure and Organization	Provides an overview of the WSLCB, criteria and findings used to assess the organizational structure.
4. Alternatives for the WSLCB's Organizational Structure and Recommended Optimal Organizational Structure	Provides organizational alternatives and a recommended organizational structure.
5. Evaluation of the WSLCB for Performance and Operational Efficiencies	Summarizes criteria used to assess the performance of WSLCB compared to similar states. Evaluates WSLCB operations and provides recommendations for changes.

Section	Contents
6. Research/Validation of Projections on Revenue Growth including Public Safety Impacts	Provides documentation and validation of the WSLCB revenue forecast process. Also identifies potential public safety impacts from increased projected revenues.
7. Appendices	<ul style="list-style-type: none"> ▪ Appendix A provides a comparison of control states, including five separate comparisons: <ol style="list-style-type: none"> 1. Liquor Control Board Structure; 2. Agency/Division Organizational Structure; 3. Agency/Division Functional Structure; 4. Number of Licensing Outlets; and 5. Performance Comparison Data; ▪ Appendix B provides the details of the Agencies structure and a current organizational chart; ▪ Appendix C provides the RCW's and WAC's relevant to the WSLCB organization and management structure; ▪ Appendix D is a list of retail best practices from control states; ▪ Appendix E is a list of stakeholder interviews; and their respective organization or position in WSLCB; and ▪ Appendix F is a list of sources used to conduct research for this project

D. Terminology

An understanding of the following terms is necessary to have appropriate context for this document:

Term	Definition
LCB	▪ Liquor Control Board – A generic term used to refer to the oversight board in other control states.
WSLCB	▪ Washington State Liquor Control Board includes the Board, Agency management and line staff.
Board	▪ Refers to the three appointed Board members.
Agency	▪ Refers to the organization that is responsible for WSLCB operations.
Executive Management Team	▪ Refers to the board members, the Administrative Director and the Deputy Administrative Director.
Ex-officio	▪ Appointed to a position as a result of another official position such as a legislator.
Control States	▪ Refers to the eighteen states that control the distribution and sale of alcohol. Does not include the two "controlled" counties in Maryland.
External Stakeholders	▪ Includes private and public sector partners outside of the WSLCB.
Internal Stakeholders	▪ Includes WSLCB Board and Agency management.
Stakeholders	▪ References both internal and external stakeholders.
Staff	▪ References line staff in the WSLCB.

Section 2 – Approach

A. Gather Information

It is necessary to have a detailed understanding of an organization's structure and operations in order to consider future alternatives and organizational improvements. Public Knowledge, LLC performed the following tasks to gather initial information on the WSLCB:

- Reviewed relevant documentation including:
 - Agency reports;
 - The WSLCB Strategic Plan;
 - The WSLCB Retail Business Plan and other Division Plans;
 - Previous third party studies of the WSLCB;
 - Relevant statutes and administrative rules;
- Visited the WSLCB Distribution Center; and
- Performed interviews as defined in the next section.

A result of these tasks was the identification of several principles and legislative intent that historically have guided the work of the WSLCB. These principles include:

- The WSLCB has a balanced mission of preventing the misuse of alcohol by controlling its distribution and providing revenue to state and local government through sales and good customer service;
- There are limits upon gubernatorial influence through the staggered terms of Board members;
- There should be appropriate checks and balances among the Governor, Legislature, and the WSLCB;
- The WSLCB will be prohibited from the stimulation of demand for liquor consumption; and
- Revenues should provide funding for cities, counties, health services, education prevention, and research, as well as the State General Fund.

The recommendations made in this report will be compatible with and support those principles.

B. Develop Assessment Criteria and Conduct Interviews

The foundation of our organizational assessment was a set of criteria for reviewing the current organization and performance of the WSLCB. The criteria were developed based on:

- Our experience completing similar assessments in other public agencies;
- Information obtained from industry best practices;
- Documentation of organizational structures in other control states;
- Suggested standards for assessing non-profit boards from various sources; and
- Interviews with Board members, the WSLCB Administrative Director, and Deputy, WSLCB managers and external stakeholders.

Public Knowledge, LLC conducted interviews with:

- Board members;
- WSLCB Administrative Director, Deputy and Managerial staff;
- Chief of Staff, Washington Department of Transportation;
- Washington Lottery Director;
- Executive Director, Oregon Liquor Commission;
- Washington regulatory agencies that utilize boards or commissions as part of their organizational structure. They included:
 - The Washington Lottery Commission,
 - The Washington Gambling Commission;
 - The Washington State Building Code Council;
 - The Washington State Conservation Commission;
 - The Washington State Board of Accountancy;
 - The Washington State Horse Racing Commission;
- Washington State Liquor Control Board private sector stakeholders including:
 - The Washington Beer and Wine Wholesalers Association;
 - Washington Association of Liquor Agents;
 - Washington Food Industry;
 - Distillers Representatives Association;
 - Washington Restaurant Association;
 - Washington Wine Commission and Wine Institute;
 - Local Union 101;
 - Executive Director of the National Alcohol Beverage Control Association, and
 - The Washington State Public Employees Association.

Appendix E provides a complete list of stakeholder interviews, their representative organizations and/or positions in the WSLCB.

C. Determine Findings and Identify Recommendations

Findings for each criterion were based on reviews and analysis of WSLCB reports and other documents, a survey of best practices in other states, comparisons with other control states, visits to the WSLCB Distribution Center, its counterpart in Oregon, consistent themes across interviews with stakeholders and our experience with public agencies. The remainder of this report provides our findings and recommendations for the WSLCB.

D. Prepare Draft Report and Review with WSLCB Executive Management Team

The draft report and recommendations were presented to the WSLCB Executive Management Team (EMT). The assumptions and rationale for the recommendations was presented and discussed. EMT suggested some further analyses and these were completed. Following the presentation, EMT members provided general comments, suggested changes and completed a brief survey assessing opinions on some the key rationale for the recommendations. This draft incorporates the added analyses and revision to the recommendations based, in part, on the suggestions and survey results.

Section 3 – Review of Management Structure and Organization

This section provides an overview of the WSLCB, a comparison to other Washington State commissions and boards and the criteria and findings used in our review of the management structure and organization. Documentation on the organizational structure of other control states is found in Appendix A.

A. WSLCB Overview

The 18th Amendment to the Constitution of the United States banned the manufacture, sale or transport of liquor and began what is commonly called Prohibition. In 1933, the 21st Amendment to the Constitution ended Prohibition and provided states complete authority to regulate the distribution and sale of liquor. That same year, the Washington State Legislature passed the Steele Act creating the Washington State Liquor Control Board. Under this legislation, control of liquor distributions was established through state ownership of liquor stores and strict regulations for any establishment that sold liquor, beer, or wine.

At the end of 1934, there were 46 state liquor stores, 105 contract stores and 6,400 licensed retailers selling beer and wine. In 2005, there are 161 state stores, 154 contract stores and approximately 13,500 licensed retailers.

States are divided into two types of alcohol distribution: control states and license states. Both types of states regulate the distribution and sale of alcohol through licensing of liquor outlets, limiting hours of operation, taxation and various other methods. Control states, also known as monopolies, differ from license states, or open environments, as they actually take control of the product at some point in the distribution cycle and become the exclusive seller.

Washington state regulates the sale and distribution of alcoholic beverages through a three-tier system (manufacturer, wholesaler and importer, and retailer). In Washington, the state is the sole distributor and retailer of spirits through LCB's 161 state and contract liquor stores. Restaurants and other businesses licensed to sell spirits must obtain their spirits from a state-run or contract liquor store. Beer and wine are distributed and sold by the private sector. Grocery stores and other businesses licensed to sell beer and wine must buy their products from a Washington-licensed distributor or importer, or a Washington winery or brewery. Manufacturers and distributors of beer and wine are required to mark up their prices a minimum of 10 percent above production or acquisition cost.

In large part, control systems serve the dual mission of ensuring maximum revenue and protecting the public through controlling the manufacture, distribution and retail sales of alcohol. As a control state, Washington believes that moderation can best be achieved by neither promoting nor encouraging the consumption of alcohol, but by prevention of misuse through education, enforcement and controlled distribution.

Washington is one of eighteen states that control and regulate liquor at the wholesale level and one of thirteen states that also control retail sales. WSLCB is also responsible for the enforcement of